CHANNELNOMICS

2024 Channel Forecast

A look at partner confidence as an indicator of potential performance and growth

February 2024

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Forecasting Partner Performance

The current economic forecast for the United States and much of the world indicates slow growth through 2024. Interest rates remain higher than the preferred range for sustainable economic growth. Inflation, though lower, continues to hinder business spending. Myriad geopolitical issues and conflicts across the globe are leading to an uneven economic landscape, especially in Europe, the Middle East, and Latin America.

At the same time, the technology market is bracing for a new wave of opportunities, fueled by the rapidly evolving range of artificial intelligence technologies. Market analyst firm IDC reports that AI spending is set to exceed $40 billion this year, with 40% allocated to new AI-capable or AI-enabled infrastructure, and up to 27.5% dedicated to services. The AI market is projected to reach about $140 billion over the next three years. Industry partners are actively investing in AI partnerships and capabilities to harness this growth.

Customer expectations are also shifting. A growing number of buyers prefer automated channels such as marketplaces for their purchases. According to Gartner, 83% of business buyers are inclined to procure products and services for their companies online. Hyperscalers like Amazon Web Services and Microsoft Azure are exerting a significant influence, attracting more vendors and independent software vendors (ISVs) to their platforms, thereby altering the dynamics of partner and customer interactions.

Channelnomics forecasts a subdued first half for 2024, followed by a resurgence in growth during the latter half, leading to more robust expansion in 2025 and 2026. IT spending isn't consistent across all areas; there will be greater investment in cloud-based services, the revamping of infrastructure for AI systems, business and collaboration software to enhance productivity, and security measures to counteract the increasing volume of threats.

While partners plan to expand their businesses through new hires, new vendor relationships, and acquisitions and consolidations with peers, they face economic and fiscal challenges. Many are

reducing expenses and conserving resources, attributing these measures to the impact of inflation and interest rates on their operations. Additionally, there's an expectation of heightened competition as more vendors and peers intensify efforts to engage customers with their offerings.

In this context, Channelnomics introduces its inaugural Partner Confidence Index (PCI), a metric reflecting partner sentiment around the ability to execute strategies over the next 12 months. This restructured Channelnomics Channel Forecast report will detail the PCI and the underlying strategies of partners in 2024.

Channelnomics is not only launching the new PCI but has also revamped this report. Each section has been redesigned to be more modular and visual, facilitating easier consumption and understanding for you, the reader. Our goal is to streamline access to vital information.

This report is designed to assist channel professionals and managers in comprehending the dynamics of the partner community, offering insights that are crucial for strategic decision-making and collaboration with partners.

About the Partner Confidence Index

Channelnomics has published its annual Channel Forecast report for 10 years. Each edition includes insights into partner growth expectations, perceived opportunities, planned investments, and operational challenges. Conventionally, the Channel Forecast report gives channel professionals a solid understanding of how partners perceive the market.

The PCI shows not only what resellers, integrators, and service providers are planning but also how confident they are in their ability to execute. The index is based on 9 key indicators that, through a weighted scoring methodology, determine partners' confidence level.

Those indicators — reflected in the questions partners were asked — include hiring plans, profitability goals, competitive pressures, reinvestment commitments, and the impact of economic, regulatory, and governmental pressures and policies. The core questions are further segmented into two buckets: business elements that partners maintain a fair amount of control over (hiring, reinvestment, planning, profit taking, etc.); and those factors that partners have little control over (macroeconomic influences, government regulations, etc.).

Channelnomics Partner Confidence Index Indicators

1. Hiring Plans
2. Sales & Revenue Expectations
3. Profit Expectations
4. Competition Levels
5. Reinvestment Plans
6. Interest Rates
7. Inflation
8. Government Regulations
9. Government Economic Policies

A tenth non-core question measuring a partner's confidence in its ability to adapt to economic changes in 2024 is added as a parity check to ensure the aggregated results are in a range of statistical likelihood.

What makes Channelnomics' PCI unique is its custom tailoring to the IT reseller and service provider channels. In broad terms, it measures the level of forward-looking confidence among channel partners, including value-added resellers (VARs), IT solution providers, managed service providers (MSPs), professional services providers, IT consultants, ISVs, and similar B2B businesses, measuring their current activities and gauging their perceptions and expectations about the year to come.

The important term here is indicator aggregation. The index is the product of intelligently weighted statistical analysis of compiled, relevant business factors. We don't simply ask PCI respondents to express their optimism or pessimism. That simplistic approach would lack rigor and result in overly optimistic platitudes based on what researchers like to call "the disembodied sentiment of the moment." Instead, with the PCI, we challenge partners to show us how confident they are through a series of questions that measure their business performance, planning, and outlook.

Before getting into the details, we'll first review the results of the individual indicators that make up the index.

Hiring Plans

Despite the ongoing string of layoffs taking place at major technology companies, partners are confident enough in their businesses to plan new hiring. Three-quarters of partners surveyed (75%) said they plan to increase the number of people on their staffs in 2024 *(see FIGURE 1: Workforce Size Plans for 2024)*. Conversely, only 5% said they plan to decrease. The plans to hire align with the general jobs reports, which continue to defy economist expectations by adding more non-farm payroll jobs than expected.

FIGURE 1: Workforce Size Plans for 2024

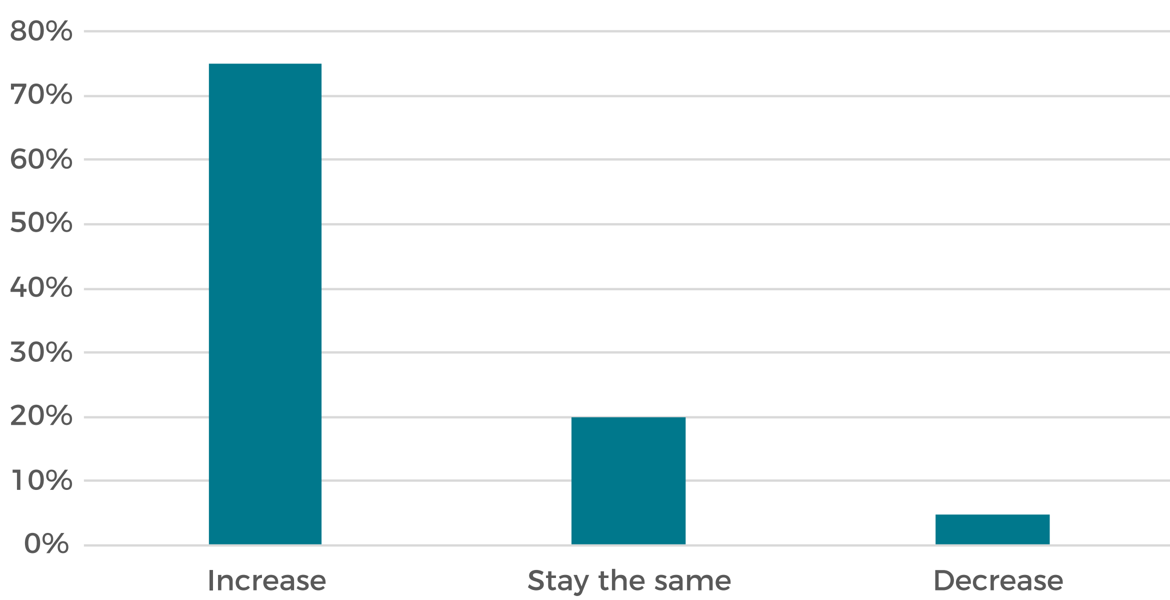
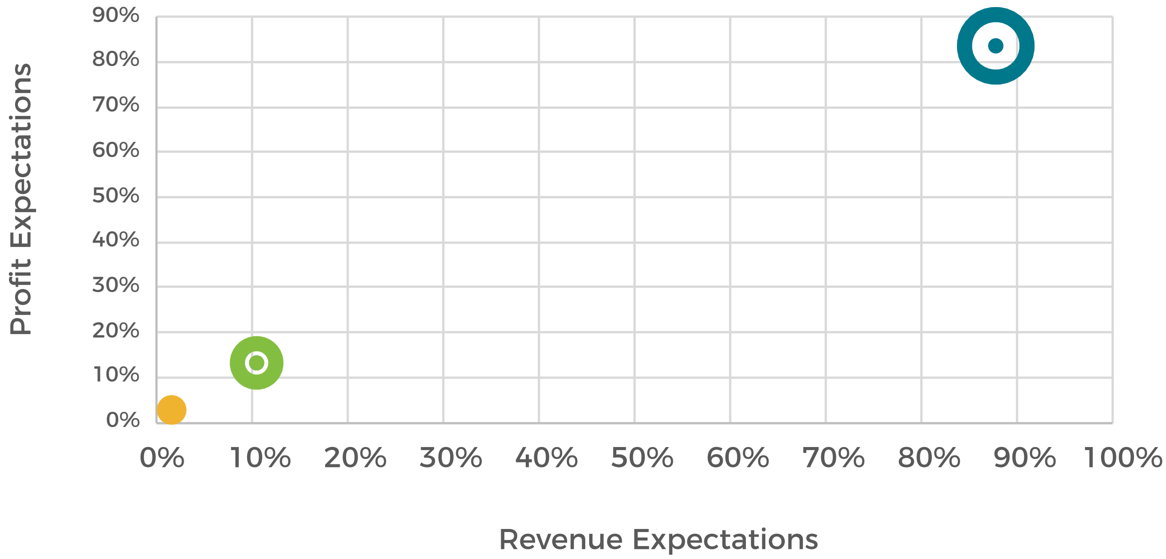


FIGURE 2: Revenue & Profit Expectations



While partners are planning to hire, finding talent may not be so easy. More than one-third of partners (35%) say they're struggling to find skilled IT professionals to serve in technical and operational positions. Another 14% of partners say they're challenged in retaining their existing talent pool. For the past two years, partners report the double challenge of increasing operational costs due to inflation and the short supply of affordable IT talent.

Technology vendors are shedding staff to cut costs, but that's not creating a glut of available talent. Many people entering the job market due to layoffs say they're able to find work immediately. Many former vendor channel professionals are finding a second life in their partner organizations. This migration is infusing new perspectives and capabilities in partner organizations.

Revenue & Profit Outlook

The sluggish economic outlook isn't dampening the confidence of partners in their revenue and profit forecasts. Nearly 90% of partners expect their sales revenue to increase in 2024, while 84% believe their profits will increase accordingly *(see FIGURE 2: Revenue & Profit Expectations).*

The confidence in revenue and profit growth aligns with the general IT market forecast. IDC says IT spending will increase at least 4% over 2023. While the first half of the year will feel slow, creating uncertainty, economists believe business spending will pick up in the second half as the Federal Reserve Board cuts interest rates, making the money supply more affordable.

Only 23% of partners are concerned about an economic downturn in 2024, meaning the majority are confident the economy is healthy or will have a "soft landing" from all of the economic uncertainty. Only 19% of partners expressed concerns about customers not having funding for IT projects; while this remains an overall issue, funding will likely open up as interest and inflation rates come down.

Measuring Up to Competition

The majority of partners surveyed (76%) believe that their company is outperforming their competitors, reflecting confidence in their market position and likely a favorable opinion of their strategic initiatives, product offerings, or customer service quality *(see FIGURE 3: Business Performance Relative to Competitors)*.

This optimism contrasts with the views of a mere 2.6% who see their company as underperforming relative to their competition. Additionally, 21% of partners see their company's performance as comparable to that of their competitors, indicating a consistent market presence.

The high confidence in their competitive position indicates that most partners believe they're positioned well to capitalize on new opportunities and achieve their growth targets.

Despite the prevailing positive sentiment, the market is not without its challenges. Notably, 41% of partners cite concern over increased competition from other IT service providers, emphasizing the need for ongoing innovation and strategic differentiation.

The concern over increased competition may come from other partners' expansion plans. Two-thirds of partners plan to expand their sales and marketing of existing offerings; 51% plan to expand into new

FIGURE 3: Business Performance Relative to Competitors

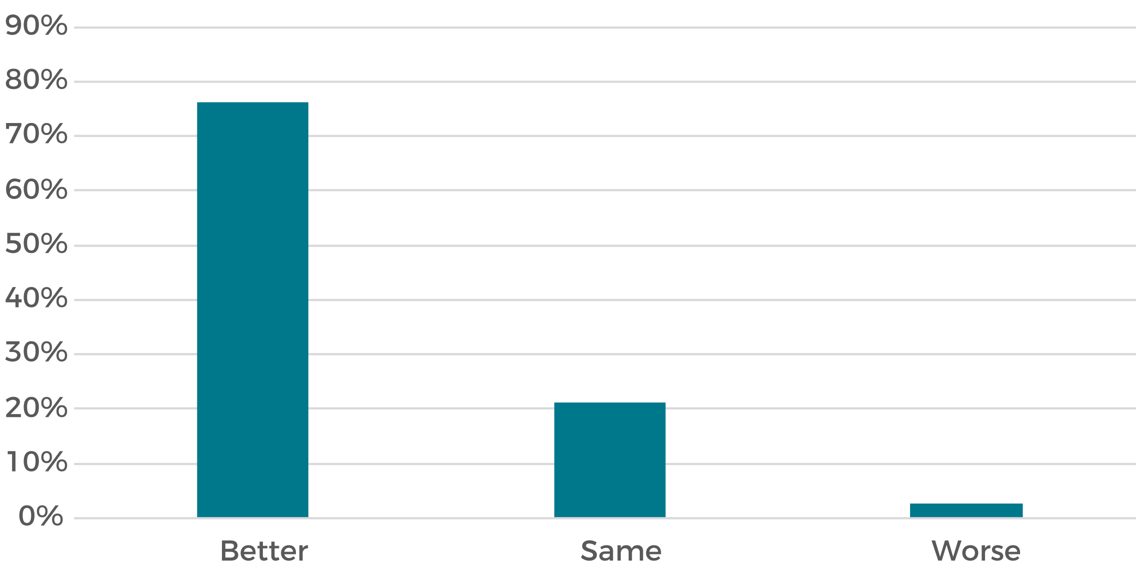
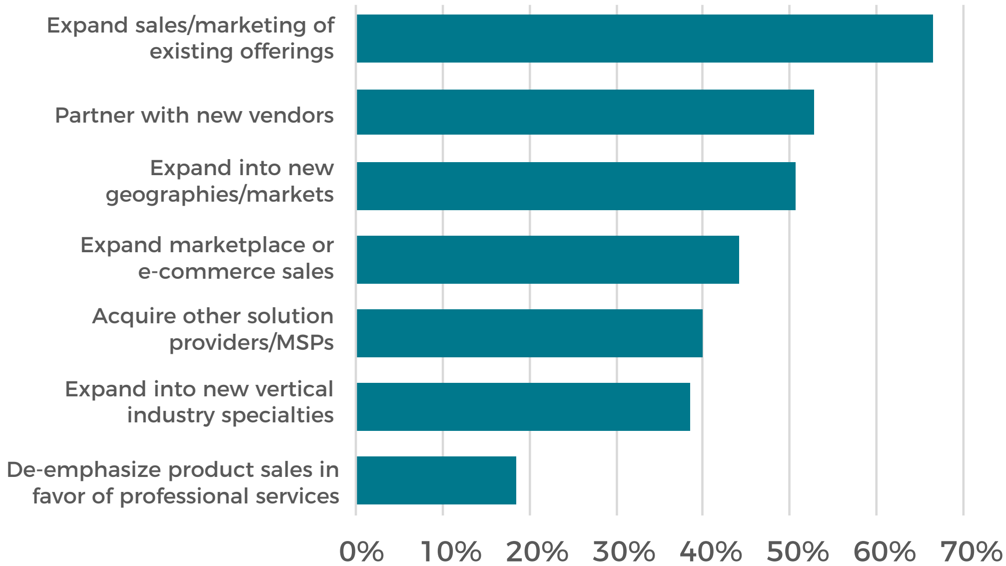


FIGURE 4: Partner Expansion Plans for 2024



geographies; 40% are looking at growing their business through the acquisition of peers; and 38% are looking to enter new verticals and specializations *(see FIGURE 4: Partner Expansion Plans for 2024)*.

Inflation & Interest Rates' Impact

Most partners are confident in their ability to execute strategic plans and grow their business in 2024. However, ongoing high inflation and interest rates are exerting pressure on their business operations and fiscal health.

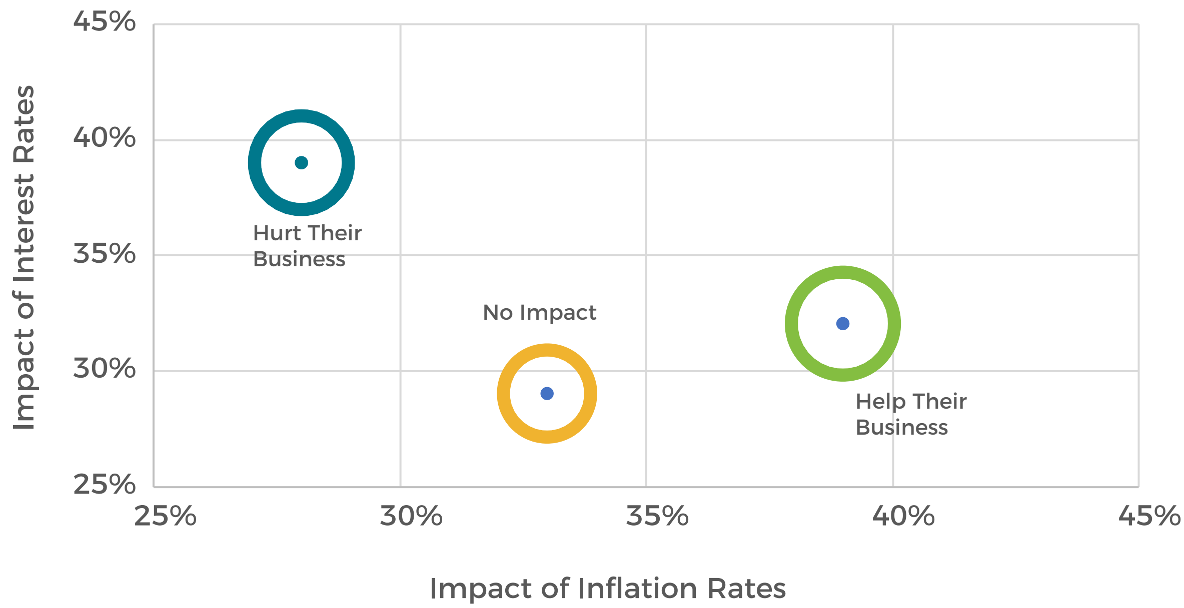
Nearly 40% of partners believe that high inflation rates will adversely affect their business operations and financial stability in the coming year *(see FIGURE 5: Impact of Inflation & Interest Rates)*. Although interest rates are on a downward trend, they're expected to remain above 3% in the foreseeable future. In contrast, 32% of partners view high inflation as beneficial to their business, possibly due to customers investing in automation to reduce costs or because price increases make higher profits more achievable.

Partners express less concern over high interest rates, with only 28% indicating that these rates will harm their businesses. Surprisingly, 39% believe that high-interest rates will be advantageous this year. The Federal Reserve's efforts to reduce interest rates below 3% are aimed at making borrowing more affordable for partners and their customers.

Inflation and interest rates also influence customer purchasing decisions. Vendors have informed Channelnomics of reduced or delayed spending by customers dealing with budget constraints in 2023. While 2024 has started slowly for many firms, vendors note that customers are beginning to show a willingness to open their budgets.

Technology costs are leading to shifts in purchasing behavior. Of the partners surveyed, 36% report that

FIGURE 5: Impact of Inflation & Interest Rates



their customers are cutting back or becoming more selective with their IT investments. Additionally, 29% of customers are demanding greater transparency in pricing and the total cost of ownership.

Government Economic Policy

Government economic policy significantly influences business confidence. Changes in tax rates, regulatory requirements, and trade agreements and tariffs can markedly affect market conditions, operating costs, and consumer spending.

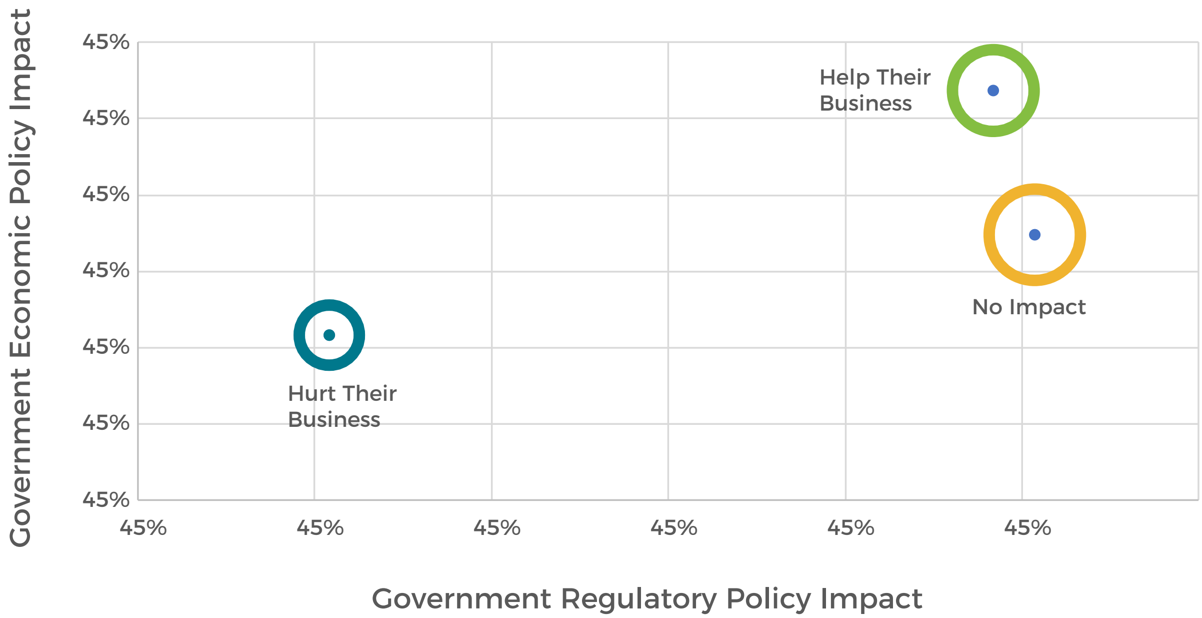
Opinions on the impact of government actions among partners are diverse. Among surveyed partners, 39% are optimistic that government regulations will positively influence their business operations and growth. Similarly, 42% believe that government economic policies will benefit their businesses *(see FIGURE 6: Impact of Government Economic & Regulatory Policy)*.

Conversely, 20% of partners are concerned that the regulatory climate will adversely impact their businesses in 2024, and 26% have reservations about the economic policies. These concerns may reflect a preference among some business owners for less government intervention and lower taxes.

The remaining partners — 41% regarding regulations and 32% concerning economic policies — either anticipate no impact or haven't specified their views. This suggests that a significant number of partners are neutral or undecided about the potential effects of government actions on their business performance.

Globally, governments are seeking to implement stricter controls over data privacy, security reporting, and artificial intelligence. Although regulations could dampen spending, they may also drive new investments that benefit partner sales.

FIGURE 6: Impact of Government Economic & Regulatory Policy



A variable in the United States is that 2024 is a presidential election year, with a potential rematch between Republican Donald Trump and incumbent Joe Biden. The economic records of both presidents are considered largely positive, albeit achieved through differing methods. The mixed perceptions could indicate that partners are taking a "wait and see" approach, awaiting the outcome of the November election.

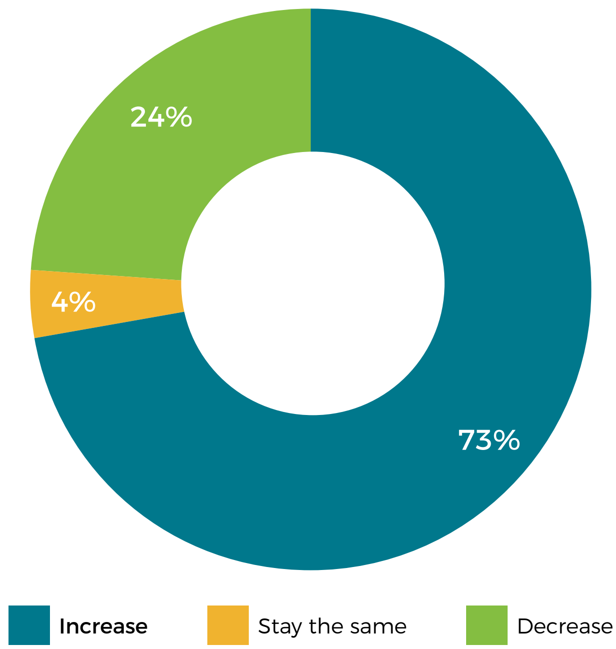
Biz Dev Reinvestments

Partners are actively seeking to increase their revenue and profits by implementing a range of strategic initiatives. These include forming new vendor partnerships, entering new markets, developing niche specializations, and pursuing acquisitions. Such expansions necessitate new investments, which the majority of partners are preparing to make.

Nearly three-quarters of partners intend to bolster their investments in their businesses, signifying a clear trend toward growth and development. One-quarter plan to reduce their investments, reflecting a very cautious approach. The remaining 3.5% are maintaining their investments at a steady level, mirroring their 2023 commitments *(see FIGURE 7: Partner Plans for Reinvesting in Their Businesses).*

Their investment priorities are focused on enhancing sales and marketing efforts, boosting technical capabilities and capacity, diversifying portfolio offerings, and engaging in strategic acquisitions. Notably absent from their investment agenda are creating proprietary branded products and services and forming new relationships with hardware and software vendors.

FIGURE 7: Partner Plans for Reinvesting in their Businesses



These investment patterns suggest that partners are intent on maximizing the potential of their existing product lines and deepening their collaboration with current vendors. Moreover, they're looking to expand their operational capacity by acquiring complementary businesses, which could streamline their market offerings and fortify their market presence.

Adapting to Changing Conditions

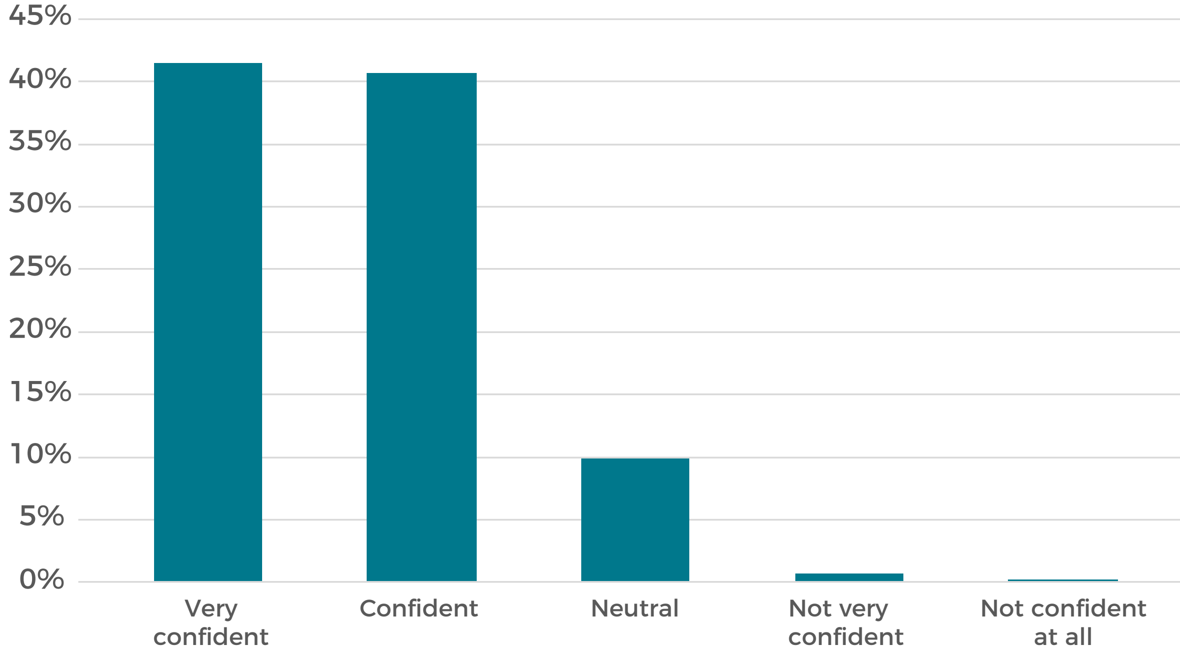
For the past 18 months, economists and market observers predicted the coming of a recession. In fact, parts of the world have seen economic contractions, but not outright recessions. In the United States, economists believed a recession would come because of high inflation and interest rates. IT spending faltered, and much of 2023 was marked by uncertainty as vendors cut budgets and channel investments due to uneven end-user spending.

The economic uncertainty, as noted throughout this report, will continue through 2024. Businesses may be spending, but vendors and partners report longer sales cycles, greater demand for pricing transparency, and higher expectations for proven returns on investment. This uncertainty means partners must be adaptable to dynamic market conditions.

Nearly 83% of partners expressed confidence in their ability to adapt to changing economic conditions in 2024. Around 42% said they're very confident in their ability to change plans if the economy improves or worsens *(see FIGURE 8: Confidence in Ability to Adapt to Economic Conditions).*

In 2022 and 2023, Channelnomics noted changes in partner operational behavior and fiscal policy. As inflation skyrocketed, partners made hard spending decisions. Rather than lay off staff, they sacri-

FIGURE 8: Confidence in Ability to Adapt to Changing Economic Conditions



ficed profitability to retain capacity. They consolidated their technology stacks to lower their burden in maintenance, training, and license costs. They made smart investments to ensure they would have the ability to pivot when opportunities returned.

Partners have a demonstrable ability to change with the ebbs and flows of the economy. Less than 1% expressed low or no confidence in their ability to quickly change. Partner confidence in this regard reflects the ability to weather dynamic market conditions, which should alleviate vendor concerns about channel displacement.

Plotting Partner Confidence

The Channelnomics PCI quantifies partner sentiment using a 100-point scale, derived from responses to nine key confidence indicators. The resulting score, based on this scale, reflects the overall confidence level *(see FIGURE 9: Channelnomics PCI Scoring Ranges)*.

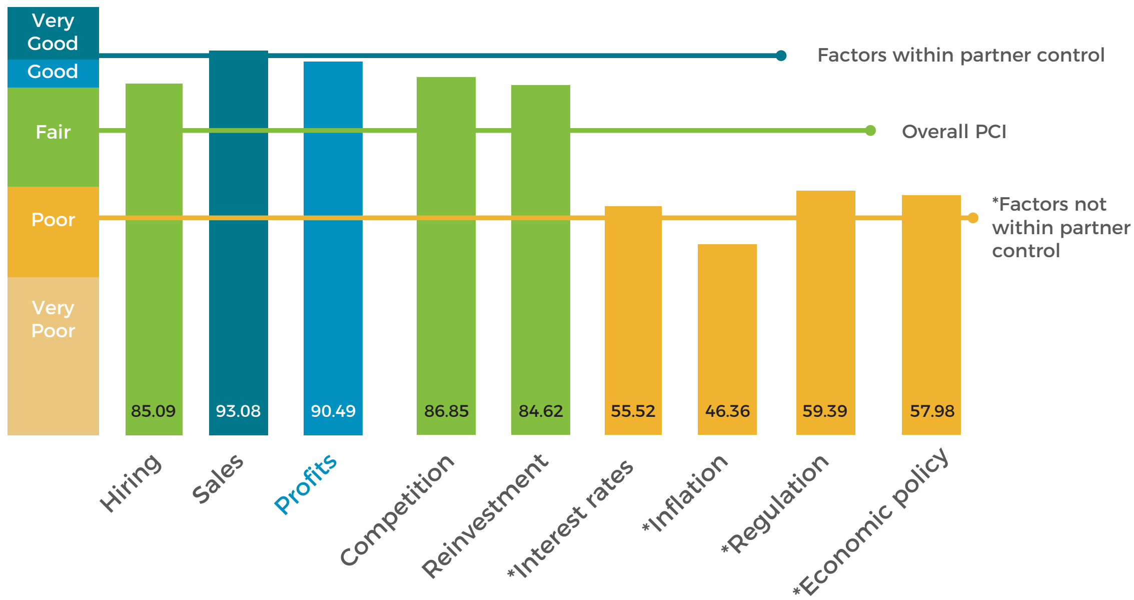
What makes or breaks partner confidence comes down to what's within their control. Partners are more confident in the areas where they have more mastery over the outcome than in the areas that are determined by market forces and regulators *(see FIGURE 10: Partner Confidence by Indicator)*.

The PCI methodology has yielded encouraging results, with partners expressing a "good" level of confidence across several key business areas. These areas include hiring practices, profitability margins, competitive standing, and the capacity

FIGURE 9: Channelnomics PCI Scoring Ranges

Very Good	91 to 100
Good	81 to 90
Fair	66 to 80
Poor	40 to 65
Very Poor	1 to 39

FIGURE 10: Partner Confidence by Indicator



for reinvestment. Additionally, partners exhibit robust confidence in their sales effectiveness and revenue-generating potential. These aspects, which partners can directly influence and manage, are the domains where they feel most assured in their investment decisions and in driving favorable results.

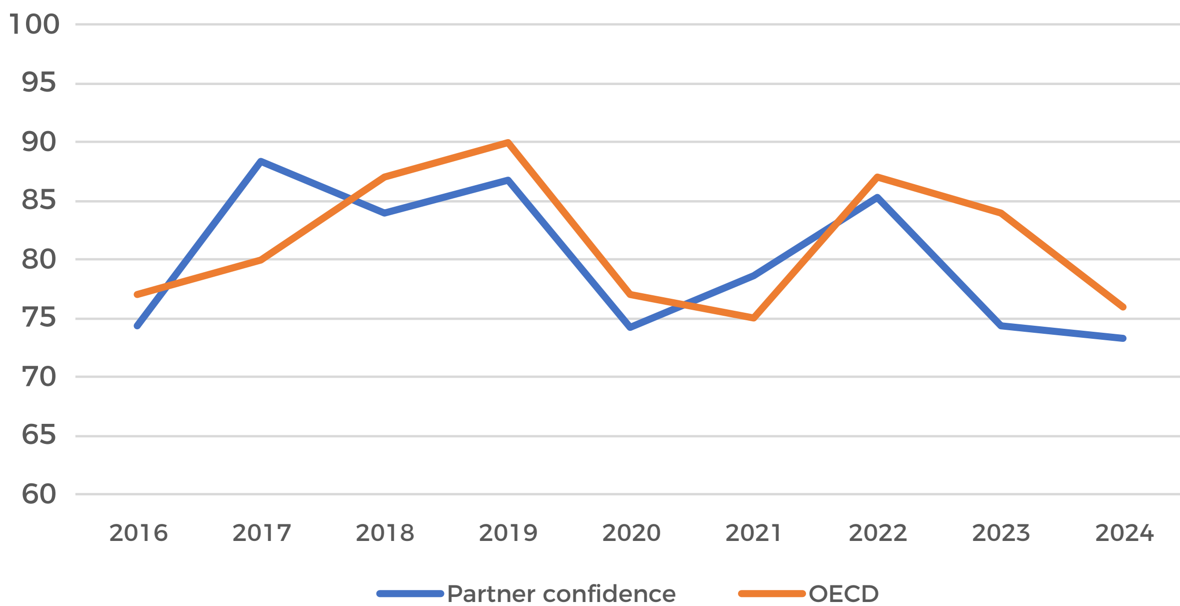
Partners exhibit lower confidence in areas beyond their direct influence. These include external variables such as interest rates, inflation, government regulations, and government economic policy. In these domains, partners have indicated a "fair" level of confidence. Consequently, these uncontrollable elements exert downward pressure on their overall sentiment.

Overall partner confidence for 2024 is fair, and slightly down compared to 2023. By the Channelnomics confidence formula, 2024 partner confidence stands at 73.23 — down more than a full point from last year. While fair confidence isn't necessarily bad given the economic uncertainty and the rollercoaster ride of the past few years, the two-year decline is disconcerting.

Confidence at the start of 2024 is at its lowest level over the past nine years — even lower than at the height of the pandemic. It's more than 10 points lower than it was during Trump's time in office, when the U.S. economy was running hot. And it's 12 points lower than in 2022, when businesses were spending heavily on technology — particularly services — to support distributed workforces and stimulus money flowed into the economy *(see FIGURE 11: Partner Confidence, 2016 to 2024).*

The United States is enjoying the fastest and best economic recovery from the COVID-19 pandemic of any country or region. The economy is growing, the Dow Jones Industrial Average and NASDAQ are at record highs, and threats of a recession are receding (at least for now). Other countries such as Canada, France, and Japan, are seeing similar

FIGURE 11: Partner Confidence, 2016 to 2024



lifts. Only 16% of partners surveyed said the lack of customer demand for IT products and services is a challenge this year. All of this should point to a more robust confidence index.

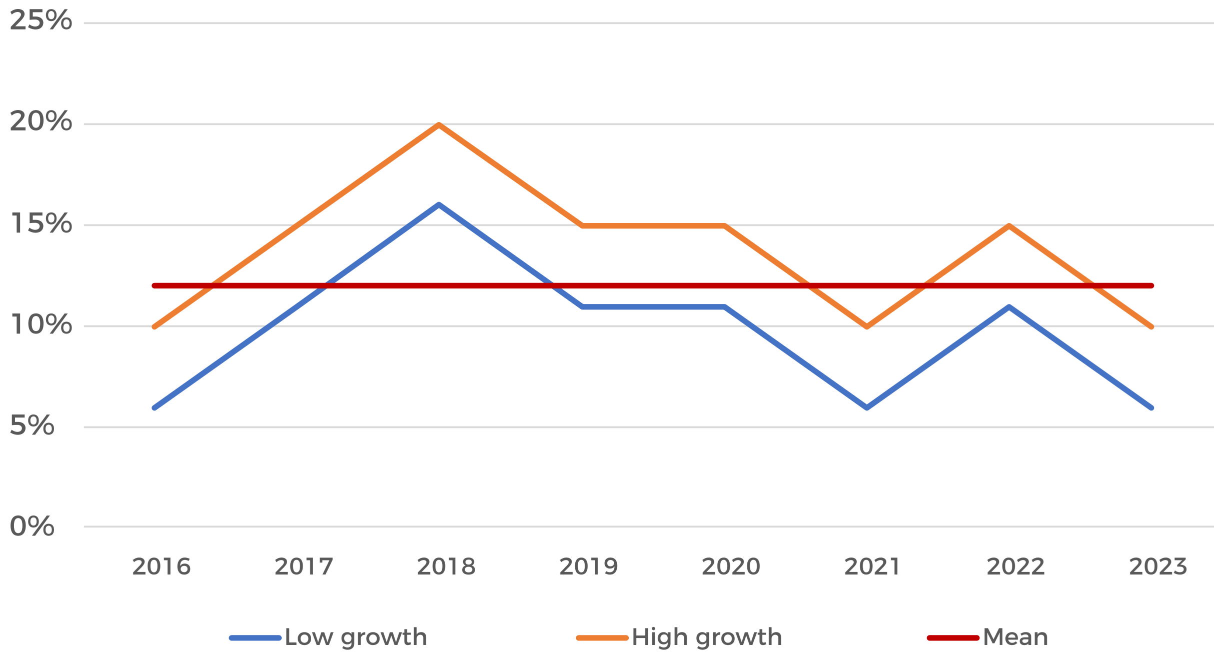
Again, the most likely culprits for the relatively low partner confidence are the outside factors. Inflation is still well above the Federal Reserve's 2% target rate. The Federal Reserve and other central banks are promising to cut interest rates this year, but that likely won't happen until the second half of 2024. Also, the economic uncertainty that comes with U.S. presidential election years, coupled with persistent geopolitical tensions around the world, is likely weighing down confidence levels.

Despite the two years of relatively low confidence, Channelnomics expects confidence to rise as demand for technology products and services rises. According to IDC, 81% of enterprise IT leaders expect spending to increase this year. IDC also forecasts that key technology segments will see healthy sales increases — Infrastructure-as-a-Service (IaaS) up 22%, Software-as-a-Service (SaaS) up 17%, business software up 12%, and servers and storage hardware up 10%. Even PCs, which have suffered declining sales in the past two years, will see a 3% increase as new AI-enabled models come to market and the Windows 11 end of life starts to impact fleet refreshes.

Historically, partners have tended to be overly optimistic when projecting their future revenue and profit growth. A typical channel partner operates with net profits ranging from 10% to 15%, depending on its business model. The more service-oriented a partner is, the higher its profits tend to be. However, revenue is a different issue.

In the past, Channelnomics has used future revenue growth expectations not as a forecast of expected productivity but as a measure of confidence in the general outlook. Partners typically report growth that's several multiples higher than

FIGURE 12: Partner Revenue Growth Expectations, 2016 to 2023



that of the overall IT market. For instance, if the IT market is growing at 3%, partners might report revenue growth between 11% and 15% *(see FIGURE 12: Partner Revenue Growth Expectations, 2016 to 2023).*

While correlation doesn't equal causation, and nor does it guarantee outcomes, Channelnomics believes that the suppressed partner confidence, resulting from the turbulent experiences of 2023 and the general uncertainty going into 2024, will also dampen overall revenue growth to an average of 6% to 10%.

Some partners will experience significantly higher top-line growth, particularly those with significant practices in high-growth technology categories, as they're likely to see better bookings and revenue. Conversely, partners reliant on device and peripheral sales will likely see their revenue constrained. Nevertheless, Channelnomics anticipates that the average partner will see revenue more toward the lower end of our historic trend lines, even if there's an uptick in the second half of the year.

A Guarded Channel Moves Forward

The IT channel stands at a crossroads of economic challenges and burgeoning opportunities. This complex landscape demands a nuanced understanding of various factors that are shaping the industry's future. The Channelnomics Channel Forecast report and PCI provide critical insights into these dynamics, offering a comprehensive view of the current state and future prospects of the IT sector. We offer these key takeaways from this year's edition.

- **Economic Landscape and Impact:** The global economic outlook for 2024 predicts a period of slow growth, with interest rates and inflation casting shadows on business operations and expenditures. In contrast to these macroeconomic headwinds, the technology sector is witnessing a surge in opportunities, especially in artificial intelligence. Significant investments are being channeled into AI infrastructure and services, positioning this emerging technology as a catalyst of growth in adjacent categories such as security, storage, and infrastructure.

- **Market Dynamics and Customer Behavior:** A pivotal shift in market dynamics is underway, driven by evolving customer preferences toward automated purchasing channels. The growing influence of hyperscalers is fundamentally altering partner-customer interactions, ushering in a new era of IT spending priorities. This transformation is not only reshaping the current channel but also foreshadowing future trends in technology consumption and distribution.
- **Business Expansion and Challenges:** Partners are adopting strategic measures to expand their businesses. Initiatives such as hiring, forging new partnerships, geographical expansion, and acquisitions are high on their agenda. However, these growth plans are countered by challenges such as rising operational costs and intensifying competition, presenting a complex scenario for business development.
- **Confidence Index Findings:** The PCI paints a detailed picture of the channel's sentiment. Partners exhibit strong confidence in areas within their direct control, such as sales, marketing, and competitive positioning. On the other hand, partners' confidence is moderated by external factors that they can't influence, including government policies and macroeconomic conditions, leading to an overall "fair" confidence rating for 2024.
- **Economic Uncertainty and Adaptability:** Despite the prevailing economic uncertainty and restrained confidence, most partners express confidence in their adaptability to shifting market conditions. This resilience is evident in their proactive responses to challenges such as inflation and changing market demands. Investment trends also reflect this adaptability, with a focus on enhancing sales, technical capabilities, and strategic acquisitions.

The 2024 IT channel is poised for a guarded approach, but one that points toward higher growth. Resilience and adaptability emerge as key themes, with partners geared to navigate the complex and evolving landscape. While external pressures and economic uncertainties present significant challenges, the ability to capitalize on emerging opportunities will be crucial for success.

Get Briefed on Channel Confidence

Channelnomics is excited to offer specialized briefings focused on channel performance outlook and partner confidence. These sessions are designed to equip your teams and partners with critical insights, enabling them to navigate and prosper amid economic uncertainty and performance challenges. Our briefings encompass comprehensive reviews of megatrends, the evolution of technology, and dynamic go-to-market models, all of which are poised to significantly reshape the channel landscape in the next five to 10 years.

For detailed information about our briefings or to arrange a session, please reach out to us at info@channelnomics.com.

Channelnomics Reports & Services

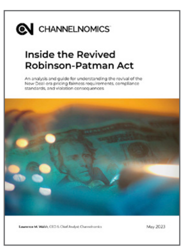
Channelnomics is your partner in optimizing high-value channels. Through our research and strategy services, we deliver market intelligence, partner insights, and go-to-market best practices that aid your channel management and partner relationships. Our content assets include the following reports and guides:

15 Must-Watch Channel Trends

As 2024 unfolds, the technology sector is poised to navigate unprecedented complexity. This special report aims to provide clarity amid change, encouraging vendors to adopt a mindset of adaptability as they navigate the ebbs and flows of the market.

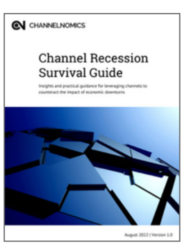
Ease of Doing Business: A high-Value Influencer

Based on an examination of more than 200,000 partner satisfaction records, this report tells deep into the factors that_the importance of ease of doing business as a foundational objective for shipping partner behavior, and performance.



Inside the Revived Robinson-Patman Act

In this Channelnomics report, we assess the implications of the revived Robinson-Patman Act of 1936 for the IT channel, providing insights into what it means to vendors and distributors and offering guidance on what could come of its widespread enforcement.



Channel Recession Survival Guide

In this report for channel professionals, Channelnomics offers insights and practical guidance on how vendors can leverage their indirect routes to market to counteract the impact of an economic downturn

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About Us

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